Year End Checklist

At year-end, there are many financial items that firms should do to prepare for taxes, and then there are things they SHOULD be doing as a matter of best practice. Many of those things start well before the year ends and should be considered in the fourth quarter to allow for proper planning. Below is a list of items to help guide you on these issues.

Fourth Quarter Planning	
	Review Current Year Budgets: Theoretically you should be looking at your actual to budget all year long to see where you are deviating and why. But this is particularly relevant to do as you enter 4th quarter. How are you doing for the year? Do you need to adjust for some of the items that caused deviation next year?
	Begin Drafting Next Year's Budget: Begin drafting budget for next year. If you are aware of any items that will deviate significantly from this year, be sure to account for those (e.g. hiring/expanding, replacing equipment, etc.)
	Review Net Income/Tax Planning: If net income is higher than expected, should the firm look for logical expenditures to make in this fiscal year to reduce taxes? Most firms want to expense everything they can before year end, particularly if they have had a good year, to reduce their taxes, so make sure all items that can be expensed in the fiscal year are posted. Discuss with the firm's CPA recommendations he/she may have to minimize taxes.
	Prepare for 1099s: Review your list of vendors for operating and trust and send W-9s as needed. Review the requirements (basically anyone who is not an INC should get a W-9). LLCs require 1099s unless filing as a corporation (if filing as partnership they are required to get them), so best to send W-9s to them too if uncertain. When in doubt, put the onus back on the vendor by sending them a W-9, or ask your CPA about the rules.

	Review Aged WIP: Take the time to review with your attorneys the firm's Aged Work in Process by responsible attorney. If there are files that can be billed, get those processed. If there are files that should be written off and closed, identify and handle those as well.
	Review Aged A/R: Again, take the time to review with each responsible attorney the Aged Accounts Receivable and determine what is truly uncollectible and write those balances off. Determine if stronger collection efforts need to be made on others, etc. It is particularly important to determine if there are any costs advanced that can be written off as these are a taxable asset according to the IRS Attorney Audit Technique Guide. Writing these off allows you to expense them for tax purposes.
	Review Your Stale Items on Bank Reconciliations You should never have uncleared deposits that are more than a few days old. Checks should not be stale more than 6 months typically and you should be contacting vendors who haven't cashed checks within a few months to make sure these don't cause headaches for you. Banks should not cash a check presented that is older than 1 year. In the case of client costs requested by employees, confirm with your employees that the checks were mailed and aren't sitting in a closed file somewhere.
	Review and Balance Your Unallocated Payments/Credit Balances Confirm everything that should have been allocated/applied is. Should any of this money be refunded or moved to trust? Clean up to only have what is necessary in there.
	Review and Balance Your Client Costs Advanced Make sure that the amount in the asset account is not overinflated. Depending on your software, there will be different ways to do this, or there may be a report that automatically tells you if they are in balance or not. If you are out of balance, better to address it as much as possible monthly or quarterly rather than waiting for year end.
	Review Aged Trust Balances

	Review age of trust balances and confirm no amounts are due to be returned to client, or alternatively sent to unclaimed property department of the state. Keep on top of this regularly. Having to submit to state is a headache so much easier if you can locate client and return. You should also confirm that none of the balances in trust are earned and payable to the firm. The IRS frowns heavily upon using your trust account as a tax planning tool and delaying taxable income to the new year. If you have earned monies in the accounts, they should be applied and transferred.
Year-End	
	Complete all data entry for the year (make sure all payments are posted, bills are finalized, trust transactions entered, AP entered/paid, payroll posted, etc.)
	Reconcile all final bank statements and address stale items that you haven't addressed in prep for year end. Confirm three-way reconciliation for trust accounts.

	Review financial statements for accounts that appear incorrect. Things to look for:
	• Payroll accounts – are there any liability accounts that show incorrect year end amounts?
	    o May want to reconcile YTD payroll figures for salaries, tax expense accounts, liability accounts, retirement accounts, other benefit accounts such as health, dental, etc.
	    o Make sure no discrepancies that need adjustment before W-2s are issues to employees. E.g. if partners receive payroll and thus W-2s are there additions to be put on W-2s for health insurance premiums and other taxable benefits?

	Review Miscellaneous and Other Office Expense accounts that are nebulous. Those can be red flag accounts to the IRS – are there things that should be reclassified in there?
	Review fixed asset and related expense accounts and determine if any assets have been coded as expenses and vice versa. CPA should be able to give the firm guidelines as to what should be booked as a fixed asset versus and expense. Some CPAs seem to do it by dollar value, but the IRS indicates it should be done by amount of time it will likely be kept. E.g. currently, you can easily buy an $800 iPhone and replace it in 2 years.
	Make any adjusting journal entries required based upon misclassifications, etc.

	Review 1099 list for accuracy and any final adjustments. Issue 1099s or give accurate list to accounting firm to issue.
	Do final year end balancing of client costs advanced and unallocated payments. Be mindful of capturing reports for 12/31 that preserve what AR and WIP were as of that date for client costs advanced after all data entry has been done.
	You may wish to check the YTD fee and cost allocations from your receipt/payment reports and confirm that the GL matches that. ***Note:** if there have been prior period adjustments or other manual adjustments, these figures may have good reason for not matching.
	Once all year end items are complete, you should send your financial statements to your CPA. Once you do that, the fiscal year should be **<u>LOCKED</u>** and no further changes allowed, except for AJEs provided by your CPA. It is also a best practice to make a backup that is kept (not overwritten) of these figures.
	Once the CPA has finalized all items for tax, he/she should give you adjusting journal entries for things like depreciation, any issues found and corrected and allocation of income to shareholders (depending on the entity type). Partnerships will disburse to equity accounts while corporations may carry forward retained earnings.